



The Alchemy of High-Performing Arts Organizations

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 SMU | DataArts

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As I write this, the nonprofit arts sector is facing its worst crisis in a century. The COVID-19 pandemic has halted most performing and visual arts organizations in their tracks, shutting off the flow of earned revenue from ticket sales and weakening fundraising. Simultaneously, a national conversation on race and equity, sparked by the disproportionate impact of the virus on communities of color and the police killings of George Floyd, Breonna Taylor, and others, suggests the urgent need to infuse equity into institutional policies and practices to help overcome our national legacy of systemic racism.

It's not yet clear how arts organizations, which play a vital role in our arts ecosystem, can adapt and thrive in an environment whose contours remain deeply uncertain, especially given that the sector faced big challenges even before the current crisis.

Amidst these sea changes, we can still usefully mine the past for clues to the future by asking questions like: What did healthy arts organizations do to get that way—and how did organizations that were in some distress turn around their fortunes and become healthy?

The Alchemy of High-Performing Arts Organizations is an important contribution to beginning to answer both of those questions.

Mining the SMU DataArts' rich database, authors Zannie and Glenn Voss have undertaken the first effort that we know of to employ stochastic frontier analysis, a technique from the business world, to identify a group of 20 varied, high-performing arts organizations (including 10 that had recovered from financial distress) based on a set of indicators of organizational health.

The authors then interviewed the leaders of those organizations, yielding an account of their views of the sources of their organization's health. Their observations link what has often been a series of separate conversations on artistic excellence, community orientation, and financial and marketing strategies.

While, as the authors note, we cannot say whether the successful strategies identified in this report are found only in high-performing organizations or whether they are sufficient to cause high performance for all organizations, the findings in this intriguing study, *The Alchemy of High-Performing Arts Organizations*, suggest the need to better understand the relationship between inclusive organizational cultures and financial health.

At a pivotal moment, the study provides valuable insights, and a productive starting point both for future studies and for field conversations. As one arts leader observed, "The field is starved for authentic stories of recovery." In that spirit, we hope the authors' conclusions will be both heartening and helpful to arts organizations as they consider, given their own unique contexts, whether following similar strategies could help pave the way toward a more resilient future.



Will Miller, President
The Wallace Foundation
August 2020

How does an arts organization become financially stable?

How do high-performing arts organizations maintain their magic?

What does it take for a struggling organization to turn its fortunes around and become high performing?

This paper, based on research conducted from mid-January to mid-March 2020, investigates elements of successful strategies that can be considered for replication or adaptation by others. Specifically, we examined the following research questions: 1) What are examples of visual and performing arts organizations that have financially out-performed others in substantial ways, as well as examples of those that came close to shutting down or were in the bottom ranking of performers but engineered a financial turnaround? 2) What kinds of strategies were used to achieve this financial performance? and 3) Were there particular contexts or conditions in which these strategies seemed to be more effective?

To answer these questions, we first identified 10 organizations with a long track record of high performance along seven financial and operating metrics and 10 organizations that successfully engineered a turnaround from low to high performance on these same metrics in recent years.¹ Our approach to identifying and understanding high-performing organizations is through stochastic frontier analysis, an analytic method that allows us to explore the frontier of highest feasible performance given the characteristics of each organization and the community in which it operates.

To understand how those organizations achieved high performance, we then conducted interviews with organizational leaders in both cohorts. In speaking to their strategies and plans, they described a kind of “mental map,” or playbook, linking choices and decisions to outcomes. The synthesis of shared elements across those mental maps forms the basis of these findings:

- **The cornerstones of high performance appear to lie in the alchemy of high standards in the creation of work that is meaningful to the local community.** While this deceptively simple statement may reflect universal intentions, executing on it, according to these organizational leaders, takes humility and an intensive investment of resources and time.

- **Strong cornerstones of a strategic vision lead to these short-term outcomes:** tactical wins that inspire confidence and excitement, a stronger brand, a high-functioning board, and community relationship development and buy-in.
- A number of **internal factors moderate or regulate the organization’s ability to translate these cornerstones into positive short-term outcomes**, including mission alignment, a healthy culture that invites participation, adaptive capabilities, investments in marketing and fundraising, and a multiyear horizon. Turnaround organization leaders particularly emphasized a strong plan with organization-wide buy-in as being critical to their ability to rebound. **Environmental factors** such as shifting consumer behavior and funder priorities, local population and policy changes, natural disasters, and national crises **also affect an organization’s ability to achieve short-term gains.**
- **Short-term outcomes** provide a feedback loop that reinforces the cornerstones of strategic vision and **translates into intermediate outcomes of increased organizational capacity and increased audience and donor participation and engagement.** These resource and relationship wins reinforce an organization’s community orientation and advance its ability to achieve high programming standards. Environmental factors again affect an organization’s ability to translate short-term gains into intermediate outcomes.
- **Intermediate outcomes also lead to financial sustainability provided the organization has discipline.** Arts and cultural organizations exist for mission fulfillment, not financial sustainability. **Yet the long-term outcome of financial sustainability undergirds the ability to maximize mission success.**

This white paper is designed to provide guidance to organizations that seek a path linking strategy and financial sustainability.

¹ Please see Appendix A2 for a listing of participating organizations.

INTRODUCTION

Arming those who lead nonprofit arts and cultural organizations with more knowledge and strategies for improving organizational health is essential for the field's long-term sustainability. Even before the recent spate of health, economic, social, and civil crises, arts organizations faced headwinds related to changes that affect tax deductibility of contributions, regular threats to the elimination of federal arts funding, and changing consumer preferences. Additionally, the organizations were largely cash-strapped and unprepared to weather another economic downturn, and average attendance was on the decline for more than half of the arts and cultural sectors.² Like nearly every sector of society and business, these organizations have been hard hit by the pandemic, and the effects will continue as long as questions remain about the safety of gathering and sharing cultural experiences in closed spaces.

Yet while some organizations remain concentrated on short-term triage, others have turned their sights to a path forward, beyond reopening to recovery and reimagining. We take advantage of this crucial moment to share the commonalities among 10 performing and visual arts organizations that have achieved high performance and 10 that engineered a turnaround during the past 5-7 years. It is too early to know whether all aspects of their success are achievable in the current environment or whether some elements that drive success gain or diminish in importance under unprecedented conditions. Still, the lessons offered are intended to help those contemplating *the next-normal* (Sneader and Singhal 2020) consider how to link the present to a longer-term strategy for achieving financial sustainability.

We identified high-performing and turnaround organizations through stochastic frontier analysis, an analytic method that allows us to explore the frontiers of highest feasible financial and operating performance given the characteristics of the organization and the community in which it operates. It is important to take into account each organization's context to get to as level a playing field as possible before considering whether the organization is performing above or below

average, all else being equal. Even then, we know that some organizations that are similar in every way still perform differently than one another. Intangible assets like good decision-making, artistic and managerial expertise, reputation, and relationships all influence an organization's performance. Because these traits are, by nature, intangible, we cannot easily measure them. And yet we all know how important they are, and we can statistically estimate how much these intangibles play a role in setting an organization apart from others like it in similar markets. In fact, our qualitative data collection with leaders of arts organizations during the course of this project underscored the critical importance of intangible assets to achieving high performance.

We focused our analyses on a 5-7 year arc of relative performance on seven financial and operating outcomes: working capital and debt ratio, unrestricted contributed support from individuals, revenue from subscriptions and memberships, community engagement, occupancy expense, surplus/deficit, and revenue diversity. Based on our analysis, we identified 23 high-performing arts organizations that have consistently achieved above-average performance on at least four of the seven metrics for at least four years, and 22 turnaround organizations that went from below-average to either average or above-average performance over time. From these 45 organizations, we interviewed 20 following a theories-in-use methodology (Zeithaml et al. 2020). Organizations ranged in budget size from roughly \$650,000 to \$35 million, although most organizations' total annual expenses were in the \$1 million to \$4 million range. They represent a diversity of visual and performing arts sectors. For more on our methodology, how we selected the organizations we interviewed, and information on participating organizations, please see Appendix A1.

² See SMU DataArts, *Five Steps to Healthier Working Capital* (dataarts.smu.edu/artsresearch2014/working-capital), *Theatres at the Crossroads: Overcoming Downtrends & Protecting Your Organization Through Future Downturns* (culturaldata.org/pages/theatres-at-the-crossroads) and Marketing Impact Report (forthcoming).

“Think big. A plan can generate excitement about a positive future state and the roadmap for getting there.”

Nearly every high-performing organization we interviewed was, we learned, at some point in its history, a turnaround organization. Therefore, it is unsurprising that common themes emerged across the two cohorts. Every turnaround organization but one was insolvent or near insolvency at its lowest point. While the pandemic has been responsible for driving many organizations to this point recently, the historical driver of financial crisis at a time when other organizations were able to thrive was characterized by those interviewed as an organizational culture and management style that fed poor decision-making. Specifically, people spoke to a lack of transparency, low confidence, low morale, toxic leadership in a culture of fear, lack of trust among staff and board, indifference to the community, insincerity, loss of trust with the community and funders, bad reputation, and board infighting.

Since the genesis of the problem was identified as being internal, the catalyst for the turnaround was the board hiring new leadership, whether to replace an existing professional or give the organization its first professional executive leader. The hiring of new leadership surfaces as a key ingredient to successful turnarounds in much of the literature (Kaiser 2008; Montgomery 2008; Slater, Barlow, and Lovett 2006; Sull 2010).

Success is not accidental or haphazard, according to these organizational leaders. Without exception, participants in both cohorts spoke to their strategies and strategic plans. They possess a mental map—or playbook—for how success happens, created with involvement and buy-in from the staff and board. As one CEO remarked, “Think big. A plan can generate excitement about a positive future state and the roadmap for getting there.” Turnaround organization leaders particularly emphasized the importance of a

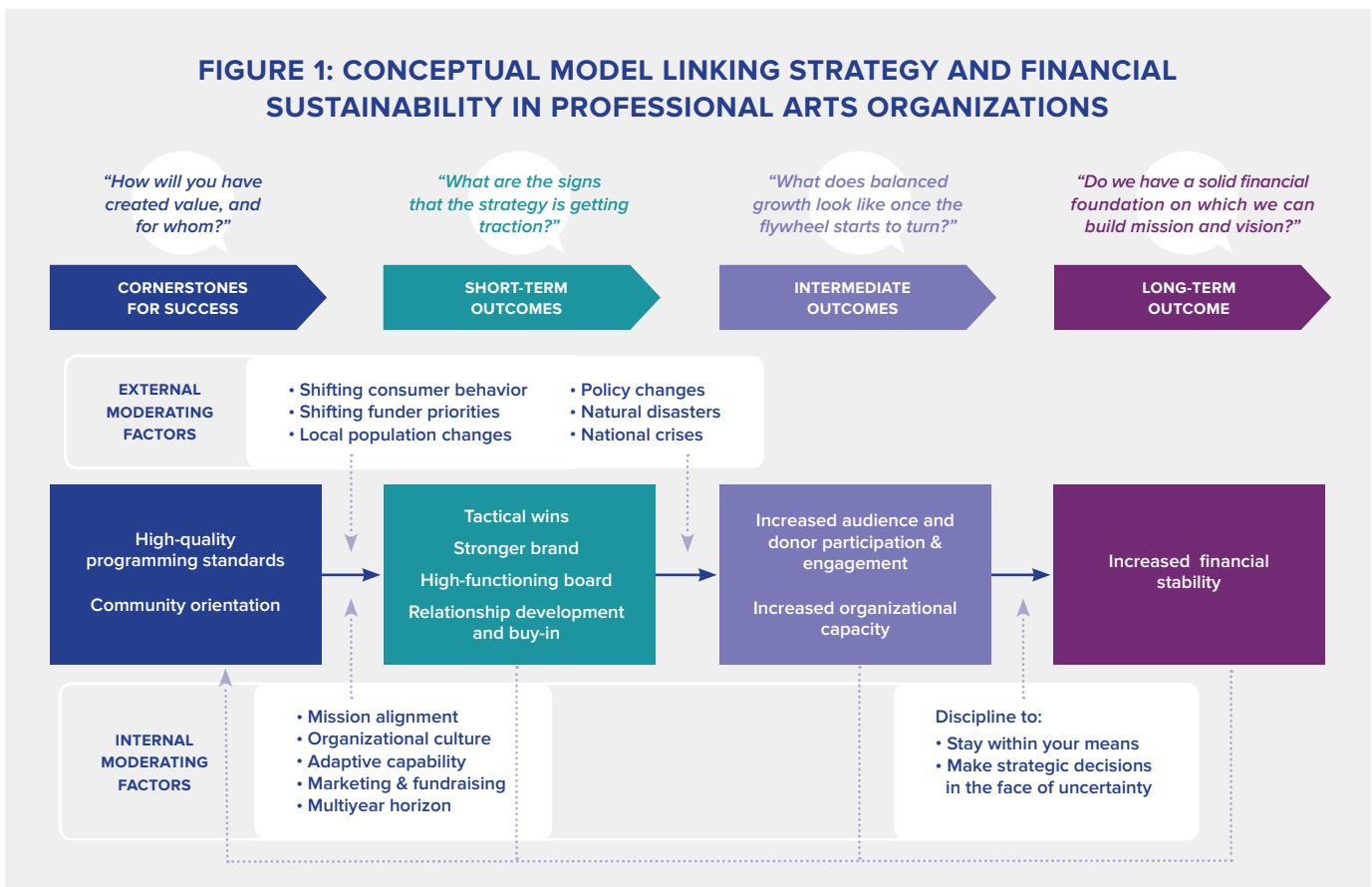
strong plan with buy-in as critical to their ability to improve performance. These grounded action plans for achieving goals recognize multiple steps in the process that unfold over time, rather than assume that a single action or miracle moment will provide transformation (Collins 2005). As an executive director observed, “Once the turnaround begins, strategy changes are evolutionary, not revolutionary. Steady, incremental improvement over time.”

The synthesis of commonalities across those mental maps forms the basis of these findings and the conceptual blueprint for achieving high performance. We now describe in detail the steps and underlying constructs of the conceptual model linking strategy and financial sustainability in professional arts organizations as expressed by project participants, and we offer support gleaned from the interviews.

LINKING STRATEGY AND FINANCIAL SUSTAINABILITY

According to all whom we interviewed, the road to sustainability begins with a clear and compelling purpose (see conceptual model opposite page). **The cornerstones of high performance appear to lie in the alchemy of high standards in the creation of work that is meaningful to the local community.** Organizations that are high performers and those that have turned around poor performance are resoundingly intentional in their cultivation of both strengths: high program standards and community orientation. As one executive director stated, “Work to always create transformational experiences that build community. If you can do that well, everything else falls into place.” It is up to each organization to interpret these essential cornerstones for strategic success to fit its mission, vision, and community’s needs. Importantly, **understanding the community’s needs requires that an organization go beyond making assumptions and commit to the ongoing practice of actively listening to its community, then adapting its programming to meet needs.**

FIGURE 1: CONCEPTUAL MODEL LINKING STRATEGY AND FINANCIAL SUSTAINABILITY IN PROFESSIONAL ARTS ORGANIZATIONS



External threats to an organization’s ability to achieve short-term gains are unprecedented events, such as the COVID-19 virus, as well as downward industry trends such as changes in consumer preferences attributable to high-quality substitutes, local population changes, shifts in institutional funder priorities, and the tax reform act’s impact on individual contributions. A number of internal factors moderate the organization’s ability to convert these cornerstones into positive short-term outcomes. Moderators are factors that affect the direction and/or strength of the relation between an antecedent and its impact on an outcome (Baron and Kenny 1986). The positive impact of a strong foundation is maximized when there is mission alignment throughout the organization that permeates decision-making. Success flourishes in a positive, open, healthy culture that invites participation. It requires a balance of steadfastness and adaptability as well as longer-term vision and professionalism. An executive leader shared, “Innovative solutions and new approaches to programs and problem-solving are presenting themselves through open, clear, cross-departmental communications.” When these internal elements are in place, they pave the way for short-term tactical wins that inspire confidence and excitement, build the brand, and strengthen relationships with the board, employees, and external stakeholders who buy into the organization’s strategy for success.

The flywheel starts to turn (Collins 2005) as short-term outcomes translate into intermediate outcomes of expanded organizational capacity and increased audience and donor participation and engagement. These resource and relationship wins have positive impact on the organization in two ways. First, they reinforce its community orientation

and advance its ability to achieve high-quality programming standards. Second, they lead to financial sustainability provided the organization has the discipline to stay within its means and make conservative strategic decisions in the face of uncertainty. Arts and cultural organizations exist for mission fulfillment, not financial sustainability. Yet the long-term outcome of financial sustainability undergirds the ability to maximize mission success.

Organizational leaders with whom we spoke measure their success at different junctures, as reflected in the Figure. Objective measures of organizational success frequently mentioned were attendance growth, revenue growth, bottom line, cash flow, debt reduction, and increase in revenue diversity. Subjective measures tended to focus on stakeholder satisfaction, collected through surveys and informal conversation.

We now explain and provide support for each of the elements that are part of the conceptual model – or blueprint – of the relationship between strategy and financial sustainability.

CORNERSTONES FOR SUCCESS

There are **two cornerstones that constitute necessary conditions for strategy success: high program standards and community orientation.** Organizations that are high performers and those that have turned around poor performance are resoundingly intentional in their cultivation of both strengths, and those interviewed attributed the core of their success to the alchemy of these two underlying factors. Each organization’s unique interpretation of these cornerstones forms the vision statement that frequently anchors strategic plans. **Strategic vision is the organization’s answer to the question, “How will you have created value, and for whom?”**

While this basic product-market fit sounds intuitive, **attaining the alchemy is an aspiration rather than a reality for many organizations. It demands a commit-**

ment to excellence in programming in tandem with a commitment to providing programming that is meaningful to the local community, not just to the organization. As one executive director remarked, “Some organizations do what they want to do regardless of whether the audience follows. We don’t say ‘do this, it’s good for you.’” Three leaders of turnaround organizations also shared their thoughts:

- *“Our biggest deficit was involvement and connection to the community. Getting this right will address the financial deficit.”*
- *“I do not believe there is another way to achieve a healthy bottom line than through success in being meaningful to the community.”*
- *“Modifying your vision to what fits with that city is critical. Some people think their vision should never be messed with. That isn’t true. Honor the tastes, history, demographics – this is really important and inseparable from the programming and operations of the company.”*

“We all have an obligation to be reflective and relevant. When you begin to achieve this in a meaningful way, it makes everything else easier.”

Artistic and programmatic excellence is widely shared as a key strategic goal among arts and cultural organizations, as are product and service quality in any industry. Although the organizations included in this study are performing and visual arts organizations, the cornerstones permeate not only their performances or exhibitions but also their education and outreach programming. Comments arose such as, “Commit to constantly raise the level of the experience,” and “You can’t have a subpar product. It has to be excellent and compelling.”

Ultimately, organizations do not determine what work resonates with a community, the community decides for itself. An executive director summed it up as, “The

plan always has to reflect great art that is relevant to your community, plain and simple.” Understanding what programming will be meaningful to the local community, however, requires getting out of the organization and participating reciprocally, listening, learning, and responding, all of which lead to relationship building. As one leader remarked, “We all have an obligation to be reflective and relevant. When you begin to achieve this in a meaningful way, it makes everything else easier.”

Community orientation forces organizations to rethink whether and how they serve more segments of the community. **When organizations provide programming that makes them relevant to only a small slice of the community, they not only expose themselves to risk when that narrow slice diminishes in size with shifting demographics, but they also miss opportunities to increase their footprint of community connections.**

The instinct is to ask, “Why don’t those other segments of the community find relevance in the programming we provide?” A community orientation presses the question, “Why doesn’t the organization provide programming that those other segments of the community would find relevant?” **Active probing and listening are the only ways to discover what people value, what they find meaningful, and what needs they have that the organization can meet.** Many interviewees spoke to the importance of a community orientation. Following are select comments:

- “Create a strong bond in the community and figure out what people respond to. Becoming essential to the fabric of the community takes time.”
- “Look around your community and pay attention to who is there and what they care about. They will tell you where there is untapped potential. Ask, ‘Where are we underperforming given the market’s characteristics?’”
- “Get out and engage with other local organizations – not only as an organization, but also as individuals. Ask, ‘How can we serve you? How would you like to be involved? How can we help you with your mission?’”

TWO ILLUSTRATIVE CASES

The Dallas Symphony Orchestra and Atlanta Opera have both managed to turn around organizational performance. Each has a clear strategic vision that embodies the alchemy of high quality that is meaningful to the communities. The leaders of these organizations spoke with us about the ways the cornerstones for success ground their work.

DALLAS SYMPHONY ORCHESTRA

“My #1 priority is to grow the audience. When I first started, we did some relatively unscientific research – surveying to subscribers, interviews with those around the city. We got a lot of feedback that we were too inwardly focused and not connected enough to the community. We were open to being criticized and responded. We should be a leader and take feedback.

The piece about the community is an important part of what we must do. The institution had no trust. People thought it was only for the elite. We think now about how many concerts people can participate in outside of the concert hall, and we are expanding education programs. Last year we created a Young Musicians’ program in southern Dallas – an El Sistema-like program. Southern Dallas has no music education before middle school. The DSO is creating a whole program with hundreds of kids in 1st-5th grade and training them at a high level. This combines quality at the highest level while focusing on the child and the family. The transformation and passion of the kids is very moving. It provides the orchestra members and staff opportunities to get involved in the community. We invite the students and their families to DSO performances. We want them to feel like this is a home for them.

The great concerts are important, but so is the future of music, and how we are connecting with citizens is equally important. This takes time. People have to believe and trust. You don’t get that in the short term.”

**– Kim Noltemy, President and CEO
Dallas Symphony Orchestra**

THE ATLANTA OPERA

“Opera is the most expensive art form that exists.

Every decision we make, if we’re not careful, could be a disaster. When I arrived in 2013, high financial risk left no appetite for artistic risk. I had to figure out how to mitigate financial risk in a way that opened our board and public to artistic innovation.

We created a contemporary chamber opera series that allowed for diversity—demographically, geographically and in terms of subject matter. We call it the Discoveries Series. This artistic innovation allowed us to expand our annual productions from three to four, and it cost us a fraction of the mainstage productions. In the second year, we added a second Discoveries production. Our impact in our community grew even more. The following year we added performances to each production. We also allowed for exploration of the rich tradition of musical theatre, but in a way that leveraged our strength in finding vocal talent and our willingness to present classics—both of traditional operatic repertoire and what can be considered “crossover” repertoire—in new and inviting ways.

Now, The Atlanta Opera stakeholders and the community have embraced the concept, and we are running with it. We present four mainstage productions and two Discoveries Series productions each year founded on an approach that reimagines our traditions, embraces contemporary works, and allows us to intentionally and thoughtfully stretch the conventions of our art form. This has created tremendous interest from nontraditional audiences. It is whetting an appetite for opera. Forty-two percent of Discovery attendees are new-to-file, and 24% return for mainstage productions. These productions address important topics, such as LGBT persecution in the Holocaust, and connect with themes relevant to specific audiences, from military veterans to our important and influential African American community in Atlanta.

We have added education programs and a talented group of Studio Artists to supplement these topics and conversations. We are creating a strong bond in the community, while also building our own capacity and investing in our core artistic competencies.

**— Tomer Zvulun, General and Artistic Director
The Atlanta Opera**

- *“Spend time listening and put community needs first. Don’t assume that the needs of one community apply to others. Your key to survival is for your community to care that you provide your programming.”*
- *“It’s not hard work. It’s easy once you’re listening as an organization. Have the wisdom and humility to be a listening organization. Listen with the intent of understanding, rather than listen as you await your moment to speak.”*
- *“We are in a facility owned by the people. We have to serve the entire community. Everyone should feel comfortable and served. That has contributed to the philanthropic growth, too. No one sees us as elitist. We have something for everyone.”*
- *“Really serve your audiences—respect them because they could go elsewhere. Find those things that will resonate with the interests of audiences and donors.”*

EXTERNAL FACTORS MODERATE THE LINK BETWEEN CORNERSTONES FOR SUCCESS AND SHORT-TERM OUTCOMES

High-performing and turnaround organization leaders noted environmental factors that inhibit the ability to translate a solid vision rooted in cornerstones for success into positive, short-term outcomes. Given the timing of this project, it is not surprising that COVID-19 escalated in importance as an unprecedented barrier to success.

Pre-pandemic, numerous interviewees remarked on the threat of shifting consumer behavior creating demand challenges:

- *“People are stressed and looking to hunker down at home, and they have high-quality options like Netflix.”*
- *“It is extremely difficult to get people to show up at a specific place and time. The competition is 1000 organizations long, not to mention what people can do in their own home. They have to get messaging from us seven times before they buy a ticket. This takes a significant level of resources for us to be where we need to be.”*

- *“We’re all dealing with a world where the attention spans are diminishing and we’re in an art form that requires a two-hour commitment.”*

Natural disasters affect arts organizations just as they disrupt operations of all businesses. Wildfires in California were mentioned, with references not only to the loss of property but also to the subsequent loss of local population, which impacts both audiences and donors. Climate change is affecting organizations located close to water, with severe flooding becoming more of a common, annual event that causes damage to facilities and programming cancellation.

Local population changes affect organizations’ ability to implement successful strategies. Some mentioned positive changes such as increases in population and wealth, while others brought up the difficulties of gentrification and rising cost of living driving out people and local businesses. One executive director described the local impact of the opioid crisis, poverty, and ongoing recession:

- *“Our school population has gone from 26,000 to 22,000. There’s unemployment and the opioid crisis. Many of those folks are young people, with children. Increasing levels of homelessness and working poor. Because of that, the city and county are having to devote a lot of resources to emergency response, child abuse training, etc. It’s a greater sense of crisis.”*

Several arts leaders spoke to the threat of shifting funder preferences, with some national and regional grantmakers eliminating arts support in favor of other social causes. There is fear that the COVID-19 virus will create such great hardship and need in the country that government and foundation arts funding will dry up entirely.

Many organizations have approached mandatory closings during the pandemic as an opportunity to exercise their adaptive capabilities and develop digital

programming. Nevertheless, there is great uncertainty about public willingness to resume attendance at arts events, particularly those held in closed spaces, which may forever alter consumer behavior in unforeseen ways.

Finally, policy decisions affect strategy effectiveness. Elimination of public arts funding at the federal level has recurred as a threat in recent years. The 2017 Tax Cuts and Jobs Act (TCJA) has begun to yield negative effects on some of the arts organizations. The TCJA discourages philanthropy from donors whose total contributions do not meet the new threshold for itemizing. As one president and CEO remarked, *“2019 was harder for us. We started hearing from people that they can no longer itemize and will be cutting giving. What do we do about it?”*

INTERNAL FACTORS MODERATE THE LINK BETWEEN CORNERSTONES FOR SUCCESS AND SHORT-TERM OUTCOMES

Numerous internal factors affect an organization’s success in translating cornerstones of a strong strategic vision into short-term outcomes, according to those whom we interviewed. These include mission alignment, organizational culture, adaptive capability, investment in marketing and fundraising, and a multiyear horizon.

Mission alignment

Once there is clarity around an organization’s mission and its vision for its excellent, relevant programming in the context of its community, staff and board members have to embrace that vision and align all organizational decisions behind it. This alignment is what Fisman, Khurana, and Martenson (2009) refer to as “True North,” a concept reflected in numerous interviewee observations such as, *“Being really committed to the mission and executing against it makes things easy,”* and *“Everyone has to align on the mission of the organization. Otherwise, you’re always putting out fires. Maintaining this focus in all relationships allows politics to essentially stay out of the room when necessary.”* Mission alignment not only helps an organization focus on what

is important, it gives organizational leaders a guide for saying no to anything that takes it off base regardless of influence or pressure.

Some executive directors discussed strategy around programming they consider core and non-core, noting that even non-core activities cannot represent a gross deviation from mission. They observed the following:

- *“Have internal and board agreement on what is core and non-core programming. Then, always protect the core. Non-core has to at least break even or run a surplus to underwrite the core programming.”*
- *“Have the fortitude to stop pursuing follow-the-money grants. They are like crack. Before you know it, you are siphoning time and money from core programs to support what the grant didn’t cover for your non-core project.”*

Organizational culture

Organizational culture is a second internal, moderating factor. Respondents unanimously brought up the importance of a healthy, positive organizational culture. **Key characteristics of a healthy culture were repeatedly described as trust, transparency, open communication, and respect.** Building and repairing trust is particularly critical for turnaround organizations. **Lack of trust and transparency were frequently cited as traits of organizations at their lowest point.** People described staff and board infighting, dangerous silence, and a culture of fear and terror from an autocratic leader who did not respect employees. One executive director of a turnaround organization shared, *“This is a people-driven place. You’ve got to be REALLY good with people. Be kind and caring. It goes a long way.”*

Trust between the artistic director, executive director, and board members is paramount. One person remarked, *“You can’t create strategy together if you can’t get along.”* An executive director shared, *“[The artistic director] and I have an incredible deep, respectful, and trusting relationship. This sets the tone for the organization. I come to work to support the stories artists tell. I bring a strong commitment to [the artistic director’s] vision.”*

Open channels of communication are key, especially when there are challenges or disagreement. The executive director of a turnaround organization shared, *“Even now when we have to course correct, we are open about it. We just finished six weeks of performances in a new venue. We were overly ambitious in our initial projections. We did not meet our revenue goals. We are committed to ending the fiscal year in a break-even position, so we now have to make course corrections. There is no finger pointing; we do it together.”* The executive director of a high-performing organization offered this counsel: *“To build trust, share the joys and the pain. Be transparent with the board, staff, and artistic leadership. Honesty is the only way to get everyone to own both the successes and the challenges. In the end, you ARE all in this together or else everyone loses.”*

“Be transparent with the board, staff, and artistic leadership. Honesty is the only way to get everyone to own both the successes and the challenges.”

In many turnaround organizations, there was an early moment when a new executive leader had to reveal the depth of the financial crisis to the board. Without fail, the transparency and honesty about the situation galvanized board members. One executive director’s story was representative of many: *“At my first finance committee meeting I had to reveal the real problems. The finance committee chair stood up and applauded. It was the first time someone had been transparent.”*

These key characteristics of trust, transparency, open communication, and respect extend beyond the executive, artistic, and board leadership relationships to the staff culture more broadly. **A participatory management style nurtures a culture that allows internal stakeholders to have a voice in sharing their perspectives and to contribute to decision-making.** It fosters collaboration. An executive director remarked, *“Our key to success is our cultural values. We’ve built a culture*



where everyone has a voice, which creates great buy-in. No one is penalized for having a bad idea.” Others shared their guiding philosophies, such as: “If you want to go fast, go alone. If you want to go far, go together”; “Make space for those who don’t have the same privilege of position to speak up with their boots-on-the-ground perspective”; and “Approach all of this with emotional intelligence. Ego helps nobody. Confidence does.”

Another aspect of culture is the prevailing mood or sense of energy. Bruch and Ghoshal (2003) refer to it as the organization’s energy zone, ranging from low to high intensity coupled with negative to positive quality. High-performing organizations exist in an energy of passion, or high, positive intensity, where the focus is on response to an exciting goal. **Those who succeeded in turning around organizations frequently spoke of the need to move the organizational energy from a defeated place of resignation or aggression to passion.** These comments speak to the importance of the organization’s energy:

- “Changing the outlook made a huge difference – switching from hunkering down to seeing an abundance of opportunities. Hunkering down doesn’t help you grow, and our goal is to expand the network in all ways.”
- “We had to get the board and staff to believe. **People want to be involved in a success story if you let them.** They have to believe they are creating one before they can get anyone outside of the organization to believe it.”

- **“It makes a world of difference to see yourself as part of a winning team.”**
- *“When I started there was a scarcity mentality. We never had the cash to pay for anything and people made terrible decisions. It was crippling. It produced unhealthy anxiety that is not good culturally. I had to change that.”*

Adaptive capability

A third moderating factor is adaptive capability. It became apparent during the interviews that high performance requires a balance of steadfastness in mission alignment with the capacity to adapt as needed.

Adaptive capability embodies a learning orientation where organizations are willing and able to modify programming and operations out of necessity or in response to feedback or new information.

More generally, **adaptive capability is especially beneficial when unforeseen circumstances, challenges or new opportunities arise.** Some organizations have an artistic committee or executive committee at either the staff or board level that meets regularly to consider new opportunities related to programming, strategy, or internal operations. Here are examples of ways arts leaders made changes, big and small:

- *“The idea of adaptive capability is essential for my colleagues since the stay-at-home orders were announced in March. Within one week, our classes were all online; in-school and extracurricular programming was transitioned to recorded videos and materials distributed to students and teachers all over the city; and our company artists were creating choreography, teaching classes, and conducting interviews in their homes for thousands of people to watch.”*
- *“I couldn’t make cuts because all of the cuts had been done before I got here. I looked around at what we had that could yield more revenue for us. Before we weren’t utilizing all of our musician services because attendance was low. Now we max out the musician services that we were paying for anyway and we use unused inventory [i.e., unsold seats]. We invite students, low-income members of the community, veterans, offer more seats for our corporate sponsors. This also ups corporate contributions because they don’t want to sponsor houses that aren’t full. This partly contributes to the audience and revenue growth.”*
- *“Cash flow was a problem, so we changed our fiscal year start to better align with our big influx of cash. It’s a detail that is critical.”*

“You need to continue to pivot in the ways the community needs you to move.”

Willingness to change the programming most often occurs in incremental ways, such as offering opportunities to engage with existing programming in response to demand—e.g., dance classes offered in more schools—or changing the number of annual offerings. A general director noted, *“You need to continue to pivot in the ways the community needs you to move. We try new programs when we think we see demand, not when we just want to offer something new. Money follows good ideas.”* Organizations experiment with offering programming in new neighborhoods, online, or in nontraditional locations, such as a park or botanical garden. One interviewee observed, *“Look at what works well, what advances mission, what excites people. Invest in these areas and be willing to expand them while letting go of less successful efforts.”* An adaptive mindset led one executive director to seize an opportunity:

- *“Our concert model is 80-100 singers in six choruses. It takes time to transition each chorus. We were playing only to [family and friends of performers], with close to 20 minutes of down time in total per performance for transitions. We decided to introduce short entertainment in each 2-3 minute gap. We call it the Interlude Project where arts organizations perform vignettes to fill that time. Those organizations’ audiences then come. These have become win-win opportunities for joint funding, exposure, co-marketing, and audience development.”*

The strategic plan itself is another area where adaptive capability is important. Interviewees universally attested to the **importance of a strategic plan formulated between the artistic and executive leaders, senior staff leadership team, and trustees, with buy-in from the staff.** However, numerous comments such as this one spoke to the need for flexibility: “In year four of the last plan we started the strategic planning cycle anew so there would be no interruption. It never sees a shelf. We constantly reevaluate whether it all still makes sense. We look for evidence and feedback. If it doesn’t work we get rid of it. There’s a lot of iteration.”

Investment in marketing and fundraising

A fourth internal factor is the level of investment in marketing and fundraising. Successful organizations recognize the need to invest in professional talent and strategies in the areas of marketing and fundraising, the functional areas of the organization that drive revenue generation. Savvy organizations understand that it is necessary to spend money wisely in order to raise and earn money. While norms for return on marketing and return on fundraising vary somewhat by arts and cultural sector, the overall averages are \$8.37 earned in program revenue for every dollar spent on marketing and \$8.59 raised for every dollar spent on fundraising.³ Executive leaders of a turnaround organization shared, “Build a machine that makes it easy to ask for large and specific amounts,” and “My focus starting on day one was on building the business infrastructure that didn’t exist. We needed professional marketing and development staff who are resourced properly.”

Numerous executive directors spoke to the critical importance of hiring professional staff in these areas of revenue generation, or providing professional development to existing staff to increase their expertise. They noted the dramatic impact that investments in professional staff had on revenue. We heard comments such as the following:

- “When you hire professional staff, they immediately see that there’s lots of room for growth with just a

little focus. Easy, early wins for revenue and for increasing avenues for loyalty with us. Professional staff know how to create pathways to loyalty.”

- “Don’t under-spend. It stunts growth. Stewardship requires an investment of time for relationships and provision of services. We’ve invested in the membership program because as we were gaining thousands of new members, we wanted to be sure to provide high-quality service. Spend money to keep up with the success.”

Several high-performing organization leaders spoke to professional expertise in honing effective, targeted communications strategies. We heard observations such as the following:

- “Develop a capacity for donors to see the value you create that goes beyond the work on stage. Multiple touch points. We looked at messaging. What will be compelling? What’s our impact beyond the art? Go beyond the product to social consciousness and impact; it matters.”
- “Tell the story of what you’re doing, don’t just sell shows. Show what your civic footprint is and come up with ways to measure it. Be in the schools. Provide tickets to veterans and low-income members of the community. Making the education effort and role we play in being a place for the community to be together – making these messages as front and center as the art-for-art’s-sake messaging. This broadened our pool of donors.”

Multiyear horizon

Possession of a multiyear planning horizon is the final internal factor that moderates the relationship between the cornerstones of strategic vision and short-term outcomes. Strategic plans are built on a multiyear horizon. **In and of itself, the act of creating a roadmap to attaining or retaining financial stability feeds optimism.**

³ SMU DataArts Fundraising Report (culturaldata.org/the-fundraising-report/return-on-fundraising-index) and Marketing Impact Report (forthcoming).

As an executive director shared, “What it comes down to is sustainability. We can set up ourselves in a way that we know we will be around for generations.” Another remarked, “People have to believe in a positive future for the organization.”

The arts leaders with whom we spoke included a variety of elements in their multiyear planning. Most notably, plans involved multiyear programming and a fundraising campaign component targeting multiyear annual gifts from major donors, an endowment campaign, bequests, and cash reserves.

SHORT-TERM OUTCOMES

What are signs that the strategy is getting traction?

According to the arts leaders whom we interviewed, cornerstones for strategy success lead to positive short-term outcomes under the right internal and external conditions. Short-term outcomes include tactical wins, a stronger brand, high-performing board, and relationship development and buy-in. These provide a feedback loop that reinforces the cornerstones of strategic vision and translates into intermediate outcomes.

Tactical wins

A prevailing mantra among leaders of both cohorts of organizations is that success breeds success. For turnaround organizations, attaining an early win can generate confidence and excitement, creating a positive feedback loop that reinforces confidence in the strategic cornerstones and subsequent roadmap.

- “We created a new series. There were a lot of scary moments and pushback. What sold the doubters is the fact that we brought in so many new audience members that our revenue spiked. People came!”
- “We’ve been fortunate in that the moves we’re making have been yielding the fruit we’ve been searching for. We feel good about the newer directions we’re taking. There were trepidations among staff in my first year regarding programmatic changes. Some were naysayers and thought it would fail. All

of those moves have been so successful that the staff and community got confidence that we CAN do that.”

- “Excite people about seeing growth – it keeps people engaged.”
- “Milestones are critical for giving confidence and creating a significant buzz that inspires others to join the effort.”
- “Small successes give confidence to tackle bigger goals. It makes everyone believe you can solve problems together, serve the community better. A self-fulfilling prophecy. We raised more money than this organization ever thought was possible. From a \$1.25 million early win for one capital project to \$38 million for another in just five years.”
- “Our building was falling apart and we had to renovate. This revamped the entire board. Half left because they weren’t on board for renovations and didn’t believe it would be sustainable. Lots of folks who had never been asked to contribute ended up giving to the campaign of \$8 million. We rebuilt and doubled the square footage. We are a Cinderella story. Skepticism gave way to galvanizing when people saw that we could raise the money. They thought we couldn’t handle it. How did we do it? We asked!”

Stronger brand

A second short-term outcome is an increase in brand strength. Positive brand awareness, image, and associations grow out of the consistent delivery of high standards in the creation of work that is meaningful to the local community, supported by professional marketing and fundraising expertise. While branding is most often associated with commercial products and services, it is indispensable in the nonprofit sector as well.

Branding transforms functional assets into relationship assets by making a psychological connection between the brand and the target audience (Andreasen and Kotler 2008). The brand is the organization’s promise to the community. To be effective, the promise has to be distinctive so that it helps those external to the organization navigate to find it, and trusted so that people can

rely on it to be consistently delivered. Brand power determines whether you can attract target beneficiaries to the service and what donors are willing to give (Cone 2009). These comments underscore how arts leaders think about their organizations' brands:

- *“Trust with the audience and donors is essential. It isn't a given. Brands are built on trust.”*
- *“Know your competitive positioning in the landscape. Not just who you are but where you fit in. If you're not the big fish, that's fine, but increased competition for artists and audiences means you have to have a keen sense of identity that stands out for people. A bright flame. You cannot survive if you are generic.”*
- **“Figure out what aspects make your organization unique, and narrow that list to the aspects people care about. That's where your storytelling starts. You should be able to state it clearly in less than one minute.”**

While brand strength is important for all organizations, improving it is particularly critical in turnaround situations. It is easier to build an unknown brand than to change negative perceptions (Andreasen and Kotler 2008). Since trust is paramount, any misstep jeopardizes the brand, as underscored in these comments:

- *“We did surveys and found that the public was tired of hearing we didn't have money. Dynamic pricing had run amok. Our donor momentum was dedicated to plugging annual deficits.”*
- *“When the organization creates ill will in the community and the glue starts coming apart, it makes people feel like they're part of something that's failing.”*
- **“When the situation turns around, tell the new story. In doing so, celebrate the community that collectively created the positive trajectory.”**
- *“Shift the brand. Don't make it about the cult of an artistic leader. Make it about all of the artists, your audience, how you contribute to the community through your education programs. Otherwise, what happens to your brand when that artistic leader leaves? Were you nothing else all along?”*

High-functioning board

Once the organization adopts a positive culture, paints an invigorating vision of the future, and aligns its mission to support advancement of its strategic cornerstones, it can result in a more highly functioning board, the third short-term outcome. Board members begin to reciprocate trust with the executive leadership and one another, and pull back from micromanaging, which was an issue especially for turnaround organizations at their most dysfunctional point.

High-functioning boards mobilize to provide resources, leverage their networks, and advocate on behalf of the organization. Arts leaders provided numerous examples of board buy-in that sparked a positive feedback loop of support for mission-driven governance:

- *“We all went through the artistic director search together and we've all bought into the result. Folks have a lot of faith in that person. We know and trust each other—great relationships.”*
- **“The board has to believe the organization can do this. We got a first \$100,000 check for dreaming big. Within 60 days, 10 more gifts of \$100,000 or more from the board. On an operating budget of \$2.5M.”**
- *“We have a highly functioning board. We ask tough questions and invite a diverse group of individuals to participate.”*
- *“When you are transparent and establish trust with the board, you can go to them with anything. We established a board-designated plant fund [i.e., a fund for the purchase or improvement of capital assets] with a goal of \$450k. When we brought the idea for this fund to the board they found it important and necessary. It came together quickly.”*
- *“We're looking together at broader issues. I get their attention at a deeper level. We've started doing SWOT [Strengths, Weaknesses, Opportunities, Threats] analysis for every strategy pillar at meetings. We let the board give insights first to hear how they see us. The board is highly supportive and has become a governing board.”*

Relationship development and buy-in

The fourth short-term outcome is relationship development and buy-in. Internal and external relationships take hold in the short term as the organization invites and inspires participation. It is intuitive that high-quality, relevant programming can be parlayed into relationships when the moderating factors detailed above are positive. With a strong community orientation, the organization gives and receives. These interviewee comments speak to perspectives on the importance of relationship development and buy-in:

- *“Give people a reason to have local pride in your organization.”*
- **“You will only succeed if people want you to succeed. If they do, they will be emotionally invested and make sure it happens. It is about building a community of relationships.”**
- *“Ask others to be involved in your success. During our turnaround, our largest institutional funder leveraged its network to get a first \$125,000 gift from an individual with a challenge to raise an additional \$100,000. When this was met, the donor gave another \$125,000. Another family issued a challenge that if we raised \$60,000 in new contributions in three weeks they’d meet it, and they did.”*
- *“Give people a way to participate. I thought we could build audience through craft-making. Everyone has something they do at home that they can relate to. When you get people doing activities, everyone comes. You can’t help but get a diverse group.”*

EXTERNAL FACTORS MODERATE THE LINK BETWEEN SHORT-TERM AND INTERMEDIATE OUTCOMES

The environmental factors described above again moderate the organization’s ability to convert short-term wins into intermediate outcomes. For instance, in follow-up conversations with interviewees, an executive director shared how the pandemic affected his organization’s flow through the model:

- *“Right now I see the short-term outcomes as key to how we’re approaching the crisis. To some extent, COVID-19 is resetting our cycle, and it’s by revisiting the fundamentals that we’ll be able to build back up again. So we keep our high standards and community orientation now in this time. [We are] building confidence in how we’ll come back strong with tactical wins (we had a very successful Virtual Gala and we’re launching our virtual summer camp) and maintaining our high-functioning board by engaging with them and discovering how we can be an effective team together during this time. We’ll get back to deeper engagement and capacity, but those intermediate outcomes will come later, perhaps with opening back up. For now, we’re staying on track by building confidence that we can win the small battles together. And – not for nothing – the discipline to make strategic decisions in the face of uncertainty is a muscle we’re very glad to have exercised!”*

INTERMEDIATE OUTCOMES

What does balanced growth look like once the fly-wheel starts to turn? Intermediate outcomes reflect a larger footprint of audience and donor relationships that generate more revenue, and an expansion of the organization’s ability to deliver on its ambitions. **Managing balanced growth is critical to fiscal stability.**

Increased audience and donor participation & engagement

This intermediate outcome is an expansion and deepening of the relationships built during the short-term outcome phase. Initial enthusiasm gives way to solid relationships over time. One interviewee remarked, *“Good stewardship is the thing, and cultivation. Relationships take time to develop.”* Like all meaningful relationships, these require constant attention. Comments underscoring this notion are as follows:

- *“Find ways to become part of their lifestyle. **Be the place they find a reason to come to every week.”***
- *“We’ve had significant growth in board support*

and individual support because we are an institution of this community. They own our success.”

- “We are an organization with ongoing stewardship that is dedicated to subscribers. They constitute 75% of our audience. Our box office staff know them on a first-name basis.”

Having a robust base of audience members and donors is essential to fiscal stability. Arts leaders observed the following:

- “When you’ve lost the trust of your community, it takes time to rebuild it. People have to believe and trust. You don’t get that in the short term when you’ve burned bridges. Doing this right will impact the financial deficit.”
- “It’s about community connection and relevance, and that has a financial component. **You need support from the full complement of the community to move forward** – the individuals and other organizations in the community. Layers of the onion.”
- “I do not believe there is another way to achieve a healthy bottom line than through success in being meaningful to the community. Fiscal health depends on it. They have to walk through your doors.”

“For me it’s a factor of business management. You have to be careful of the earned revenue versus philanthropy balance.”

Furthermore, a number of organizational leaders spoke about **revenue diversity as a positive and desired side effect of successful engagement with both audiences and donors**. While one can argue that revenue diversity is not essential for short-term financial health, it is a precursor to long-term financial stability. Over-reliance on one source of revenue leaves organizations vulnerable should that source dry up or become erratic. Unless the source is safe and stable, diversification of revenue sources diminishes risk. One executive director com-

mented, “For me it’s a factor of business management. You have to be careful of the earned revenue versus philanthropy balance. If you’re too heavily skewed towards earned income and the coronavirus comes along, you’re vulnerable.” Another stated, “I think revenue diversity is a necessity. It’s a reality we face. The earned piece is the one that will stabilize the inevitable ups and downs of contributed income, the fickleness of the funding community.”

Organizational capacity

Organizational capacity, a second intermediate outcome, means growth in the organization’s ability to carry out its mission. Just as revenue increases with success in building relationships with audiences and donors, organizational capacity increases with investments in professional talent and quality governance. Adequate staffing levels and skills have to keep pace with growth in programmatic activity and the administrative functions that support it (Kim and Mauborgne 2009; Miller 2001).

Those interviewed pointed out the critical role that organizational capacity plays in success. This description of the interlocking nature of balanced growth captured the relationships well: “There’s a tremendous amount of institutional growing up from a \$1.5M company to where we are now. Putting process and professionalism around moving from a company of artists to an institution that feels fully owned and embraced by community. If we can put the right staff structure in place, we can achieve so much more. In the long term we can deliver mission better. Doing it alongside investing in the art rather than instead of it.”

The top perceived challenge mentioned by interviewees relates to organizational capacity. There was widespread concern that staff burnout, retention, recruitment, and talent development are issues that can inhibit the organization’s ability to capitalize on the successes achieved in short-term outcomes. Said differently, organizational leaders are aware that short-term gains will not be parlayed into financial stability if they do not grow organizational capacity.

FACTORS THAT MODERATE THE LINK BETWEEN INTERMEDIATE OUTCOMES AND FINANCIAL STABILITY

The intermediate outcomes reflect growth. Growth leads to financial stability when organizations show discipline.

Discipline to stay within your means

High-performing organizations and those that have turned around performance widely practice financial discipline and put controls into place to closely monitor it. These organizations share a culture of fiscal responsibility among the staff and board. The director of a turnaround organization said, “[We] put in place strict financial control policies that everyone agrees and adheres to. When you’ve all been through crisis times together, you appreciate that the protections are there to keep you from ever living through that again.”

Fiscal stability does not come at the expense of innovation, it undergirds it. An arts leader shared, “We try new programs and experiment with nontraditional venues. When we’re wrong, we have \$250,000 in cash reserves that we consider risk capital. It gives us permission to try things.” There is emphasis placed on the fact that the organizations exist to fulfill a mission, not to cut costs. As one president said, “Have the discipline to spend your artistic dollar where it really counts.” A general director offered, “Minimize the financial risk while increasing the artist risk. High financial risk drives no appetite for artistic risk.”

Successful strategies depend on the ability to contain costs, carefully plan for what money can be brought in, and tailor expenses to available funds. People spoke to their conservative approach to budgeting, with comments such as, “Can your community really support your revenue assumptions?” and “Increased scope follows secured funding, not the other way around.” Several leaders of high-performing organizations have never run a deficit and consider it a point of pride. Comments were made such as, “I don’t believe in deficits,” and “My secret? I’m thrifty!”

Discipline to make conservative strategic decisions in the face of uncertainty

Those who turned around organizational performance exercised patience and rationality in the face of adversity. Comments were shared such as, “Prepare, prepare, prepare!” Organizational leaders relayed the following approaches:

- “Don’t eliminate programming in a down economy; find ways to trim costs and creatively partner.”
- “We have to be careful not to follow the money but to do programming when we’re really ready for it. You have to be patient, especially when trying something new. Think about where the early wins can be made. Whom do you need to reach first?”
- “To advance the artistic potential in this climate, we have to invest more in programming. We have made the decision to go for quality over quantity. We’ve taken on risk and recognize that our biggest impact can be on a per-production basis. Focus attention. More per production, not less spent overall.”

“You have to be patient, especially when trying something new. Think about where the early wins can be made.”

LONG-TERM OUTCOME: FINANCIAL STABILITY

Ultimately, solid strategies lead to financial stability, which was a key selection criterion when identifying organizations for this report. At the same time, a solid financial foundation feeds an organization’s ability to achieve its mission and vision. **While the key to high performance appears to lie in the alchemy of high standards in the creation of work that is meaningful to the local community, it must be supported by a solid financial foundation.**

We acknowledge that the “right” capital structure depends on the art form, organizational ambitions,

programmatic calendar, and whether the organization owns a facility. There is no one right capital structure or balance of major assets that all organizations should strive for. Three metrics of financial health, however, give an indication of whether an organization is on stable financial footing: bottom line, working capital, and debt ratio.

Operating bottom line is the simple, annual look at whether the organization brought in enough revenue to cover expenses for its operations. When an organization has a large enough cash reserve, it may intentionally run an operating deficit, for example, to achieve an exceptional programmatic goal. High-performing organizations manage a positive bottom line in most if not all years. We heard repeatedly statements such as, *“There hasn’t been a deficit in my tenure of 17 years. Whatever it takes to avoid a deficit, we’ve done.”* Organizations create problems for themselves when annual deficits accumulate. Even the most robust cash reserve will be depleted over time with regular annual deficits.

Working capital represents the liquid, available funds that are readily available to meet day-to-day obligations and cash needs. It is a simple calculation of unrestricted current assets less unrestricted current liabilities. Negative working capital is a sign that an organization is borrowing funds to meet daily operating needs, either from internal or external sources. Numerous interviewees spoke to building cash reserves through surpluses and never needing to exercise their access to lines of credit:

- *“At one point things were low and we had significant financial challenges. Now we have a new artistic director in place and things are in good shape. We have more money in the bank, so decisions feel less like triage.”*
- *“When I started there was an Excel book to track the very tight cash flow and it was monitored on a daily basis. There was a scarcity mentality. We never had the cash to pay for anything, so we would say ‘no’ or do a sale today to generate cash. The organization*

was making terrible decisions. Board members were rotating in, providing short-term loans. It was crippling. It produces unhealthy anxiety that is not good culturally. Sticking to a solid strategic plan with a lot of hard work over the past five years, we have turned things around. We’ve addressed cash flow through operating surpluses, we have \$1 million cash on hand and a line of credit we’ve never used within the past three years. It gives leadership a new sense of what is possible.”

The debt ratio measures the extent to which a company’s assets are provided via debt rather than ownership. Several interviewees shared that their organizations have a policy of always paying off their lines of credit every fiscal year. While debt can work to an organization’s benefit in financing new facilities or renovations, or helping to smooth over cash flow when programming is cyclical, higher debt levels relative to assets mean that the organization is putting itself at financial risk. When debt escalates, it puts a greater burden on operations to not only come up with enough surplus revenue to pay back the debt but also to cover the interest expense. The leader of a turnaround organization shared, *“We went from being \$400,000 in debt and on the brink of closing our doors to having no debt and a real budget. Big doesn’t necessarily mean excellent. With the debt retired and a renewed sense of clear purpose, we’re in a place where we can reframe what we want to aspire to. We are enough for ourselves.”*

LIMITATIONS AND FUTURE DIRECTIONS

This research studied 10 high-performing and 10 turnaround organizations from a variety of visual and performing arts sectors. As with any study, there are limitations to recognize and the findings raise questions for future exploration.

The organizations that participated in this project had annual budgets between \$650,000 and \$35 million and all were either performing or visual arts organizations.

While we believe the experiences, perspectives, and approaches shared are instructive and hold potential for increasing stability, it is unclear whether the findings are generalizable to organizations with annual budget levels above or below these thresholds, or in other arts sectors such as arts education, science and history museums, or community-based organizations. In addition, while the internal factors we identify were associated with high performance and are therefore valuable to know, we do not know whether they are found only in high-performing organizations, and whether they are sufficient to cause high performance for all organizations. Interviewing leaders of organizations that did not recover, or recovered only moderately, to hear whether they did the same or different things, would provide stronger evidence on these questions.

Given the unprecedented impact of the COVID-19 virus, we will check in with project participants in the coming year to hear about strategies employed during the crisis and their effects. It will be illuminating to learn how organizations confronted and weathered the crisis, whether their core strategy remained consistent, and the extent to which they have encountered changes to short-term, intermediate, or long-term outcomes. Will high-performing organizations have a lower incidence of COVID-related staff furloughs and layoffs?

The pandemic's toll on human lives, the economy, and public perceptions about the safety of gathering to share cultural experiences in closed spaces may affect aspects of this model in untold ways. For instance, will the crisis bring about the introduction of new elements, a shift in the timeframe required, or the emergence of some elements being more critical? Preliminary follow-up conversations with project participants related to this question indicate that strengths in community orientation and adaptive capability have taken on greater importance in recent months. Future research might explore the extent to which the pandemic pushes arts programming into the digital realm as a mainstream activity that complements in-person engagement to meet people where they consume.

The conceptual model captures the playbook or mental model of strategy shared by project participants. However, it does not specify how long it takes to get from strategic vision to financial stability. We encourage future research that develops measures for each component of the conceptual model and tracks them to determine the length of time required to achieve short-term, intermediate, and long-term outcomes. More detailed analyses of the strategies and their outcomes could increase our understanding of what steps toward organizational success look and feel like in practice. One of the more challenging and intriguing aspects of the model is the community orientation construct. How do arts and cultural organizations reach out to and engage different segments of their community, and how do those challenges vary across different segments and from market to market?

Future research might explore the extent to which the pandemic pushes arts programming into the digital realm as a mainstream activity that complements in-person engagement to meet people where they consume.

Getting the intangibles right appears to drive high performance. Can intangibles like participatory management style, good decision-making, the ability to listen, and know-how to meet needs be taught and developed in everyone, or do some people hold these traits instinctively? How do leadership transitions affect high-performing organizations? What role does community and organizational diversity play in creating a culture where psychological safety and well-being enhance learning, creativity, and trust?



CONCLUSION

This initial inquiry into high-performing and turnaround arts and cultural organizations has illuminated elements of the strategic roadmap organizational leaders reported taking on their road to financial sustainability. While we hope it will be instructive for others to follow, we know there is no shortcut to financial success, nor a single silver bullet. Our interviews of organizational success stories suggest that achieving organizational health requires a commitment to excellence in programming that is meaningful to the local community, which leads to positive short-term, intermediate, and long-term outcomes contingent on a number of internal and external factors.

It is not always evident what decisions are the right ones to make when running an organization. This research identifies the qualities that advance high performance, as reported by successful leaders. Intangible assets like trust, good decision-making, artistic and managerial expertise, reputation and relationships, intellectual capital, a positive organizational culture, and the quality of the workforce all influence an organization's performance. Success depends upon them.

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A1: METHODOLOGY

Methodology: Identification and description of high-performing and turnaround organizations

Our approach to understanding high performance is through stochastic frontier analysis, utilizing our Key Intangible Performance Indicators (KIPIs) as outcome variables. Stochastic frontier analysis is an analytic method that is in search of the “above average.” It explores the frontier of maximum feasible output – i.e., the highest performance one might reasonably observe – given a set of inputs. In this case, inputs are the characteristics of the organization (e.g., budget size, arts sector, organizational age, square footage, number of annual offerings, whether it primarily serves a culturally specific audience, etc.) and the community in which it operates (e.g., median age and income, cost of living, population, number of arts organizations in the market, etc.). In other words, it helps us answer questions such as, “Given this organization’s characteristics and the characteristics of its market, what would we expect its average annual attendance to be, and what would be the highest level of attendance one might reasonably observe?”

FIGURE A1: EXAMPLE OF STOCHASTIC FRONTIER ANALYSIS AND KIPIs, APPLIED TO ATTENDANCE

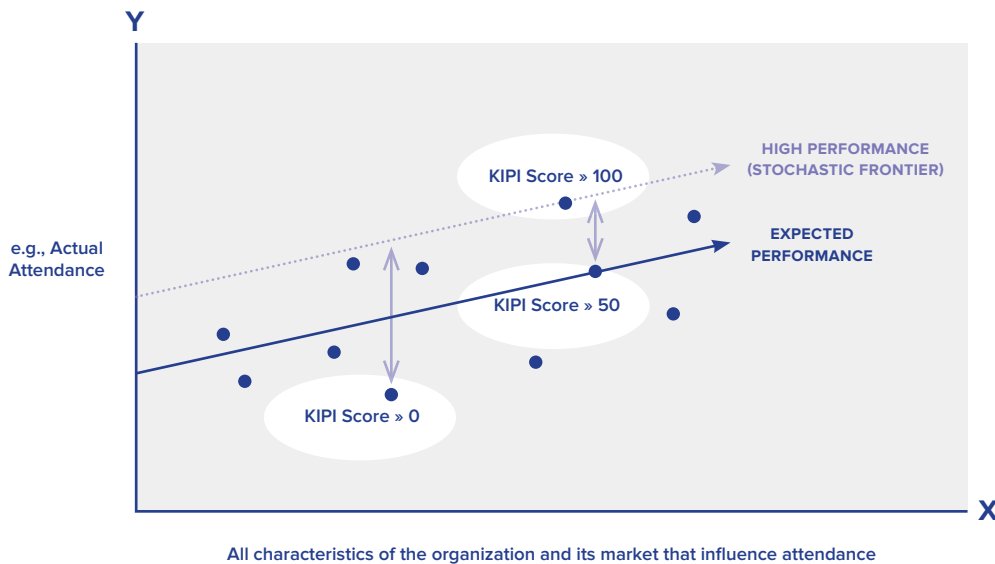


Figure A1 illustrates the concept using the example of attendance. It plots attendance levels with a dot for a set of hypothetical organizations, given each organization’s operating and market characteristics. This strategy allows the detection of high performance in organizations of different sizes and contexts. KIPI scores range from 0 to 100, with a score of 50 representing average performance and scores approaching 100 representing “high performance” outcomes – e.g., high attendance in this case.⁴ We know that organizational characteristics and market characteristics

⁴ For more information on KIPIs including detailed video explanation, please visit: dataarts.smu.edu/kipis/whatisaKIPI.php and pp. 136-145 of smu.edu/~media/Site/Meadows/NCAR/NCAR_Volume_II_Report.

explain some level of variation in every measure of performance. All else being equal, however, we know that organizations that are otherwise very similar in every measurable way still perform differently than one another. We infer that the presence of intangible assets like the ability to provide high standards in the creation of work that is meaningful to the local community, and knowledge of how to create a positive, healthy organizational culture, hone adaptive capabilities, and achieve mission alignment, etc., all influence an organization's performance. Because these traits are, by nature, intangible, we cannot easily measure them. And yet we all know how important they are, and we can statistically estimate how much they collectively play a role in setting an organization apart from others. In fact, this project's qualitative data collection with executive leaders of arts organizations underscored the critical importance of intangible assets to achieving high performance, as we discuss in the body of the paper.

To generate KIPi scores, we draw on SMU DataArts' spatially modeled, integrated data set, which provides a mathematical representation of the national arts and culture ecosystem. In it, we pinpoint the location of every arts organization and then link it to its community's characteristics – e.g., who lives nearby, what other businesses operate nearby – in order to understand how community characteristics impact performance. Since we know that distance from the organization influences arts attendance, we weight more heavily the characteristics closest to the organization, with weights diminishing with distance.⁵ The spatial model incorporates organization-level data from the Cultural Data Profile (CDP), Theatre Communications Group's fiscal survey (TCG), and IRS 990s; arts consumption data at the household level from TRG Arts; Census Bureau data; and public funding data from the National Endowment for the Arts, Institute of Museum and Library Services, and the National Assembly of State Arts Agencies. Organizations selected for this project had completed either the CDP or TCG surveys in at least five of the past seven years. These two surveys provide sufficient depth of detail in data collection for us to conduct the KIPi analyses. All organizations that complete one of these two surveys receive free access to a KIPi Dashboard where they can log in to see their own organization's performance scores on 24 metrics.⁶

For the purposes of this project, we defined financial health in terms of a 5-7 year arc of KIPi performance on the following seven metrics:

1. Level of working capital and debt ratio;⁷
2. Level of unrestricted contributed support from individuals;
3. Level of earned relational revenue (i.e., revenue earned from subscriptions and memberships);

⁵ Voss, Glenn, Zannie Voss, Young Woong Park (2017), "At What Cost? How Distance Influences Arts Attendance," SMU National Center for Arts Research, Retrieved from: dataarts.smu.edu/artsresearch2014/ncar-arts-activity.

⁶ See dataarts.smu.edu/kipis.

⁷ We added the debt ratio measure following conversations with a public funder regarding grantee organizations that recently closed. High debt levels (relative to total assets) surfaced anecdotally as a key factor. For consistency in our methodology for selecting both high-performing and low-performing organizations, we include the debt ratio in both analyses, acknowledging that expertise in management of debt levels is important as either a success provider or failure preventer.

4. Level of community engagement;⁸
5. Level of occupancy expense;
6. Annual surplus/deficit;
7. Revenue diversity, which is related to the IRS 990 public support test.

IDENTIFYING CONSISTENTLY HIGH-PERFORMING ARTS AND CULTURAL ORGANIZATIONS

To identify consistently high-performing organizations, we first conducted a factor analysis on the SMU DataArts' KIPi performance indices. Factor analysis is a procedure designed to simplify the data by identifying and combining measures that are highly correlated, thereby reducing many individual items into clusters. Starting with the seven metrics above, the factor analysis produced five factors that align with the first six metrics above (the occupancy expense KIPi was highly correlated and combined with working capital and debt ratio). We then added a single KIPi measure for revenue diversity (#7 above). Finally, we added level of institutional support (i.e., from KIPi scores on contributed support from corporations, foundations, and government) to inform the story of revenue diversification. The factor scores and the revenue diversity measure are standardized, so that a score of zero is the average for all organizations and a score of one or two represents one or two standard deviations above average. We then aggregated standardized scores to arrive at an overall look at the extent to which each organization outperformed expectations across the board each year.

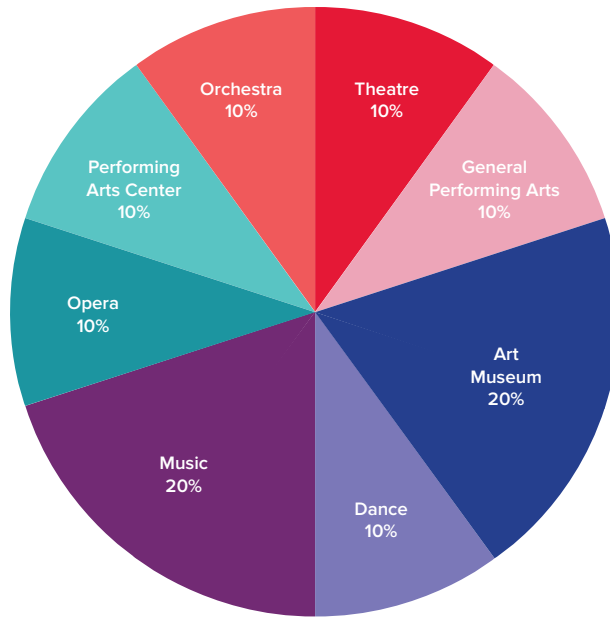
Using this aggregated KIPi score to screen for high-performing organizations, we narrowed the list from amongst the organizations that met the following criteria:

1. A minimum of five years of data;
2. An annual budget average above \$500,000 for the period;
3. An average of aggregated annual mean scores across all factors greater than four, which would represent an average factor score of approximately .6 standard deviations above average on each factor per year;
4. Above average performance (i.e., a KIPi above 50) on at least four of the seven financial health metrics noted above for a minimum of four years, identified through stochastic frontier analysis.

Of the 126 organizations that met these criteria, we generated a list of 23 strong candidates that collectively provided sector and size representation, from which we interviewed 10, starting with the strongest candidates in each sector. Two of the first 10 organizations declined to participate and we received no response from one organization. We drew from organizations 11 through 23 to replace them, with a goal of maintaining balanced sector representation (a final list of participating High-Performing Organizations can be found in Appendix A2). The 10 organizations have a median budget of \$2.0 million and a mean budget of \$7.5 million. They range in annual budget size (i.e., average total annual expenses over the period) from \$832,000 to \$33 million. There is representation from each of the eight visual and performing arts sectors (see Figure A1).ⁱ

⁸ The community engagement measure—what we refer to as “total touch points”—throws a wider net to capture all stakeholder interaction with the organization relative to the population of the local community. It includes the organization’s number of volunteers, students, artists, board members, donors, audiences, employees, and program participants. Overall “touch points” is an indicator of the breadth of support in a community which, in turn, can be tied to the ability to raise funds and to reputation. We note that available data provide us with the number of touch points, not the duration, depth, or quality of engagement each person has with the organization.

FIGURE A1: HIGH-PERFORMANCE COHORT, BY ARTS AND CULTURAL SECTOR



IDENTIFYING ARTS AND CULTURAL ORGANIZATIONS THAT REVERSED PERILOUSLY LOW PERFORMANCE

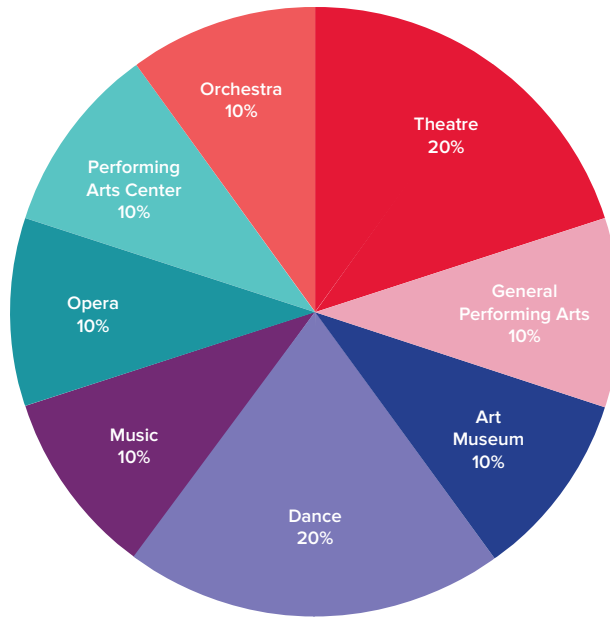
To identify visual and performing arts organizations that came close to shutting down or were in the bottom ranking of performers but engineered a financial turnaround, we repeated the same factor analysis process described above. We then aggregated standardized scores to arrive at an overall look at annual performance, calculated the extent to which each organization improved its score over time, and sorted the list by greatest score improvement.

Using improvement in the aggregated KIFI score as an initial screen for turnaround organizations, we then narrowed the list using the following criteria:

1. Broad sector and size representation;
2. A minimum of five years of data;
3. An annual budget average above \$500,000;
4. A starting score at the beginning of the period of at least one standard deviation below the mean on the aggregated annual factor score and an ending score either at or above the mean (starting scores ranged from 1-6 standard deviations below the mean and ending scores ranged from 0-5 standard deviations above the mean);
5. Improved KIFI performance on at least four of the first seven financial health metrics over time.

In parallel to the process described above, we conducted a Google search for articles announcing that an organization would be closing followed by an announcement that they would not close after all. The goals of this search were to identify organizations that had orchestrated a turnaround, and to ascertain whether it was attributable to a change in leadership or a clearly articulated strategy.

FIGURE A2: TURNAROUND COHORT, BY ARTS AND CULTURAL SECTOR



These two approaches revealed four discoveries:

1. Financial distress and bankruptcies tend to make the press when they concern a very large organization. Small and mid-sized organizations tend to simply close with little fanfare.
2. Numerous organizations that made the press for avoiding bankruptcy have yet to demonstrate that they are on stable footing – i.e., no evidence yet of a turnaround, only failure avoidance.
3. The vast majority of organizations that performed in the bottom ranking of performers at the start of the period also performed below average at the end of the period, even if their performance did improve somewhat in some areas.
4. Many organizations that were below average but not in the very bottom ranking of performers at the start of the period engineered substantial improvement nonetheless.

In addition, we researched each organization on our short list for articles referencing financial distress, difficulties, and bankruptcy, and explored this information as part of the interviews where relevant. We also visited each organization’s website for evidence of a statement of strategy or acknowledgment of recovery in recent history. We eliminated organizations that came back from the brink of failure due to a saving intervention by a board member or large funder and instead focused on organizations that recognized the need for a dramatic and enduring shift in strategy.

Of the 330 organizations that met these criteria, we generated a list of 22 strong candidates that collectively provided sector and size representation, from which we interviewed 10. Three of the initial organizations contacted did not respond to the invitation to participate, so we drew from organizations 11 through 22, with a goal of maintaining balanced sector representation. The 10 organizations have a median budget of \$2.2 million and a mean budget of \$7.0 million. They range in annual budget size from \$648,000 to \$35 million. There is representation from each of the eight visual and performing arts sectors (see Figure A2).

METHODOLOGY: APPROACH TO CAPTURING SUCCESSFUL STRATEGIES AND HOW THEY LEAD TO FINANCIAL HEALTH

To understand the elements of successful strategies and how they relate to financial sustainability, we followed a theories-in-use methodology, which seeks to capture the mental model of how things work from the perspective of individuals who are closest to the problem (Zeithaml et al. 2020). We conducted telephone interviews with leaders of 10 high-performing organizations and 10 turnaround organizations to triangulate quantitative findings and investigate the strategies that drive success. The individuals interviewed were chosen for their firsthand knowledge and experience related to the questions and issues important to this research. Most were Executive Directors, although some held the title of Director, President & CEO, Producing Artistic Director, Managing Director, or something similar. The interviews helped us formulate richer insights into the core elements of strategies that drove the results reflected in their KIPi scores and the pathway between these core elements and high performance.

The interviews followed a semi-structured protocol. Generally speaking, our questions documented a description of the strategies employed, whether they changed over time and how, the internal process of strategy design and implementation, and the key challenges encountered. Depending on the interviewee's responses, some issues were probed more deeply while other questions were omitted. The interviews also enabled us to explore the arc of internal learning and how it influenced decision-making over the period, as well as document organizational or environmental phenomena that may have influenced performance (e.g., a leadership change, a move, onerous fixed costs or capital requirements, work stoppage or union tensions, a depressed economy, the relocation of a large area employer, etc.). For turnaround organizations, we added questions intended to document the factors that brought the organization to the brink of failure and key strategic elements that were necessary to turn around poor performance.

We took notes during the interviews and recorded them. One researcher and one research assistant reviewed the interviews separately to conduct content analysis of the material collected to ensure convergence, reduce potential for bias, achieve multi-perspectives, and identify common themes across participants. We grouped emergent constructs into broader categories. After interviews with 10 high performers and six turnaround organizations, we reached a point of theoretical saturation. We then generated propositions related to the relationships between categories, and went through a process of selective coding to choose the most logical conceptual mapping of antecedents, consequences, and moderators (Corbin and Strauss 2008). At this point, there were four remaining turnaround organization interviews scheduled, so the interview questions were modified to achieve extensive iteration that allows for probing of reactions to the propositions laid out in the tentative conceptual model.

¹ The eight categories of arts and cultural sectors and their associated NTEE codes are as follows:

Art Museums: Art Museums (A51)

Dance: Dance (A62) and Ballet (A63)

Music: Music (A68), Singing & Choral Groups (A6B), and Bands & Ensembles (A6C)

Opera: Opera (A6A)

Performing Arts Centers: Performing Arts Centers (A61)

Symphony Orchestra: Symphony Orchestras (A69)

Theater: Theater (A65)

General Performing Arts: Performing Arts (A60)

A2: PARTICIPATING ORGANIZATIONS

TABLE A1 HIGH-PERFORMING ARTS ORGANIZATION COHORT		TABLE A2 TURNAROUND ARTS ORGANIZATION COHORT	
Organization / City, State	Sector ¹	Organization / City, State	Sector ¹
1 A Noise Within / Pasadena, CA	Theatre	1 The Atlanta Opera / Atlanta GA	Opera
2 Anchorage Opera Company / Anchorage, AK	Opera	2 Children's Chorus of Greater Dallas / Dallas, TX	Music
3 Arizona Musicfest / Scottsdale, AZ	Music	3 Classical Theatre of Harlem / New York, NY	Theatre
4 Ballet Arizona / Phoenix, AZ	Dance	4 Craft Contemporary / Los Angeles, CA	Art Museum
5 New York City Center / New York, NY	PAC	5 Dallas Symphony Orchestra / Dallas, TX	Orchestra
6 Provincetown Art Assn. & Museum / Provincetown, MA	Art Museum	6 Joffrey Ballet / Chicago, IL	Dance
7 Santa Rosa Symphony / Santa Rosa, CA	Orchestra	7 Maryland Hall / Annapolis, MD	PAC/CAC
8 Washington Bach Consort / Washington, DC	Music	8 Pascal Rioult Dance Theatre / New York, NY	Dance
9 Washington Cnty. Museum of Fine Arts / Hagerstown, MD	Art Museum	9 Stages, Inc. / Houston, TX	Theatre
10 Wolf Trap Fndn. for the Performing Arts / Vienna, VA	Performing Arts	10 TITAS / Dallas, TX	Performing Arts

ACKNOWLEDGMENTS

We are grateful to the leaders of the 20 organizations included in this study, who generously shared their time, experiences, insights, and knowledge. This report is a reflection of their collective wisdom. We also thank Valerie Pizzato, a 2020 graduate of SMU's MA/MBA degree in business and arts management, for her work with us as a research assistant on this project. Finally, we extend recognition and appreciation to the many Wallace Foundation colleagues who enriched this project through their own insights, especially Bronwyn Bevan, Lucas Held, and Bahia Ramos.

ABOUT SMU DATAARTS

SMU DataArts, the National Center for Arts Research, is a joint project of the Meadows School of the Arts and Cox School of Business at Southern Methodist University. The authors of this report, Dr. Zannie Voss and Dr. Glenn Voss, are director and research director, respectively. SMU DataArts compiles and analyzes data on arts organizations and their communities nationwide and develops reports on important issues in arts management and patronage. Its findings are available free of charge to arts leaders, funders, policymakers, researchers and the general public. The vision of SMU DataArts is to build a national culture of data-driven decision-making for those who want to see the arts and culture sector thrive. Its mission is to empower arts and cultural leaders with high-quality data and evidence-based resources and insights that help them to overcome challenges and increase impact. To work toward these goals, SMU DataArts integrates data from its Cultural Data Profile, its partner TRG Arts, and other national and government sources such as Theatre Communications Group, the National Endowment for the Arts, the Census Bureau, and IRS 990s. Publications include white papers on **emergence from the COVID-19 crisis, culturally specific arts organizations, protecting arts organizations through downturns, gender equity in art museum directorships**, and more. SMU DataArts also publishes reports on the health of the U.S. arts and cultural sector and the annual **Arts Vibrancy Index**, which highlights the 40 most arts-vibrant communities around the country. For more information, visit smu.edu/dataarts.

ABOUT THE WALLACE FOUNDATION

The Wallace Foundation works to support and share effective ideas and practices to foster improvements in learning and enrichment for children and the vitality of the arts for everyone. Its objectives are to improve the quality of schools, primarily by developing and placing effective principals in high-need schools, promoting social and emotional learning in elementary school and out-of-school-time settings, expanding opportunities for high-quality summer learning, reimagining and expanding access to arts learning, and building audiences for the arts. The Foundation seeks to generate knowledge and insights from these efforts to enhance policy and practice nationwide. For more information and research on these and related topics, please visit the Foundation's knowledge center at **wallacefoundation.org**.

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smu.edu/dataarts

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